

CITY OF CORNING, IOWA

Independent Auditor's Reports
Basic Financial Statements and
Supplementary and Other Information
Schedule of Findings and Questioned Costs
June 30, 2013

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-10
Basic Financial Statements	
	<u>Exhibit</u>
Government-wide Financial Statement	
Cash Basis Statement of Activities and Net Position	A 11-12
Governmental Funds Financial Statement	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 13-14
Proprietary Funds Financial Statement	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 15
Notes to Financial Statements	16-22
Other Information	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	23-24
Notes to Other Information – Budgetary Reporting	25
Supplementary Information	
	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1 26-27
Schedule of Capital Project Funds	2 28-29
Schedule of Indebtedness	3 30-31
Bond and Note Maturities	4 32
Schedule of Expenditures of Federal Awards	5 33
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34-35
Independent Auditor's Report on Compliance with Requirements Applicable to the Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	36-37
Schedule of Findings and Questioned Costs	38-40

City of Corning, Iowa
Officials

Name	Title	Term Expires
Guy Brace	Mayor	January, 2014
Dick Blazek	Council Member	January, 2014
Bert Peckham	Council Member	January, 2016
Warren Blaisure	Council Member	January, 2016
Wayne Moore	Council Member	January, 2016
Cindy Peterson	Council Member	January, 2014
Iona Allen	City Clerk	January, 2014
Ted Engel and Rod Maharry	City Attorneys	January, 2014

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JAMES R. ZIRCHER, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1098
JOHNSTON, IOWA 50131
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Corning

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund and the aggregate remaining fund information of the City of Corning, Iowa as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted the audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities and each major fund and the aggregate remaining fund information of the City of Corning as of June 30, 2013, and the respective changes in cash financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to this matter.

Other Matters- Supplementary Information and Other Information

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Other Information, Management Discussion and Analysis and the Budgetary Comparison information has not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also included my report on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

March 19, 2014

Pollard and Company P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Corning provides this discussion and analysis of the City's financial performance. This provides a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities were \$2,752,742 with Property Tax of \$543,140.
- The City's total disbursements were \$2,520,905
- The City's total cash basis net position beginning of year were \$1,184,641 and end of year were \$1,642,911 for an increase of \$481,837, and the cash basis net position of business type activities decreased by \$23,567.

USING THIS ANNUAL REPORT

The report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

Fund Financial Statements focus on the individual funds of the City government. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant (major) funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. For proprietary activities, these statements offer short-term and long-term financial information about the activities the City operates like businesses, such as the sewer and sanitation services.

Notes to the Financial Statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the basic statements.

Other information explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness. In addition, the schedule of Expenditures of Federal Awards provides details of various federal programs benefitting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. This cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with US generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of cash basis of accounting.

Reporting the City's Financial Activities

Government-wide Financial Statement

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information that helps answer this question. This annual report includes all activities for which the Corning City Council is fiscally responsible.

The Cash Basis Statement of Activities and Net Position present the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, state, and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system and the sanitation system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) The General Fund, 2) the Special Revenue Funds, such as Employee Benefits Fund, Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Funds, and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government

operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the sewer and sanitation funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago by \$481,837. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities
Year Ended June 30, 2013

Receipts and Transfers

Program Receipts:

Charge for Service \$ 87,520

Operating Grants, Contributions &
Restricted Interest \$231,586

Capital Grants, Contributions &
Restricted Interest \$1,736,565

General Receipts

Property Tax \$543,140

Grants and Contributions Not
Restricted to Specific Purposes

Unrestricted Investment Earnings \$ 34,618

Local Option Sales Tax \$119,313

Bond Proceeds \$250,000

Transfers, net

Total Receipts and
Transfers \$3,002,742

Disbursements:

Public Safety \$ 287,153

Public Works \$ 205,732

Culture and Recreation \$ 218,173

Community & Economic Development \$ 29,133

General Government \$ 111,527

Debt Service \$ 133,472

Capital Projects \$1,535,715

Total Disbursements \$2,520,905

Increase in Cash Basis Net Position \$ 481,837

Cash Basis Net Position Beginning of Year \$ 517,519

Cash Basis Net Position End of Year \$ 999,356

Changes in Cash Basis Net Position of Business Type Activities
Year Ended June 30, 2013

Receipts:

Program Receipts:

Use of Money & Property	\$ 2,619
<u>Charges for Service</u>	<u>\$674,533</u>
Total Receipts	\$677,152

Disbursements & Transfers:

Sewer	\$519,261
<u>Garbage</u>	<u>\$181,458</u>
Total Disbursements	\$700,719

Change in Cash Basis Net Position (\$ 23,567)

Cash Basis Net Position Beginning of Year \$667,122

Cash Basis Net Position End of Year \$643,555

Total Business type activities receipts for fiscal year were \$677,152 and total disbursements were \$700,719.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Coming completed the year, its governmental funds reported a combined fund balance of \$999,356 an increase of \$481,837 from 2012.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Sewer Fund cash balance decrease was due primarily to an increase in the capital project expenditures.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. It was approved on May 28, 2013 to allow for Capital projects which include Loomis Avenue Railroad Bridge Replacement, Airport runway lighting, Façade program, ECHCO Concrete plant, North City entrance signage, Neighborhood Stabilization Program, 28E Agreement County Wide Law Enforcement and transfers out. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2013, the city had \$2,925,700 of bonds and other long term debts outstanding compared to \$2,931,420 last year. During the year the City issued a \$250,000 Loomis Street Bridge Anticipation Project Note.

Outstanding Debt at Year-End

General Obligation Bonds (Street)	\$ 350,000
State Revolving Loan (Wastewater)	\$1,886,000
CIPCO Rural Economic Development	
Aquatic Center	\$ 187,500
Adams county 28E Aquatic Center	\$ 252,200
Looms Street Bridge Project Note	\$ 250,000

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Corning's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The following information was gathered from Iowa Workforce Development Current Employment Statistics program and for fiscal year July 1, 2012 through June 30, 2013: Shows a gain of 20,500 jobs. Total employment for the State of Iowa decreased by 14,800 employees. State unemployment rate was 5.0% (5.2% in 2012) and Adams County rate was 4.17%, (5.7% in 2012).

These indicators were taken into account when adopting the budget for fiscal year 2014. The City will see a small increase in General Fund Property Tax dollars through the increased valuation of property. Those dollars will assist to offset the increased expenses for salaries and infrastructure.

Garbage collection and disposal rates were increased as follows: Ordinance #394 passed and approved October 26, 2009 for 35 gallon increased by \$.06 and 96 gallon increased by \$.08. Ordinance #399 passed and approved September 27, 2010 for 35 gallon increased by \$.49 and 96 gallon increased by \$.52. Ordinance #401 passed and approved February 28, 2011 for 35 gallon increased by \$1.25 and 96 gallon increased by \$1.25. Ordinance #406 passed and approved September 29, 2011 for 35 gallon increased by \$3.80 and 96 gallon increased by \$3.80 to include recycle totes. These increases were put into effect to cover the increase in landfill tipping fees and increased fuel charges.

Sewer service charge was decreased as follows: Ordinance #410 passed and approved December 10, 2012 decreased the rate from 130% of usage billed to 125% of usage billed as the Corning Municipal Utilities raised water rates. Corning City Council estimated the new rate would still meet the needs for the loan obligations to the State Revolving Loan Fund.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at 601 6th Street, Corning, Iowa or telephone at 641-322-4230.

City of Corning, Iowa
Cash Basis Statement of Activities and Net Position – Cash Basis
As of and for the year ended June 30, 2013

Functions/Programs	Disbursements	Program Receipts	
		Charges for Services	Operating Grants, Contributions, and Restricted Interest
Governmental Activities			Capital Grants, Contributions and Restricted Interest
Public safety	\$ 287,153	\$ 571	\$ 36,973
Public works	205,732	6,050	160,012
Culture and recreation	218,173	41,148	34,601
Community and economic development	29,133		
General government	111,527	39,751	
Debt service	133,472		
Capital Projects	1,535,715		1,736,565
Total governmental activities	2,520,905	87,520	231,586
Business Type Activities			
Sewer	519,261	489,865	
Sanitation	181,458	184,668	
Total business type activities	700,719	674,533	
Total	\$ 3,221,624	\$ 762,053	\$ 231,586

General Receipts

Property tax levied for

General purposes

Debt service

Local option sales tax

Unrestricted interest on investments

Bond proceeds

Total general receipts

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

Cash basis net position

Restricted

Nonexpendable- Cemetery Perpetual Care

Expendable:

Streets

Debt service

Other purposes

Unrestricted

Total cash basis net position

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash
Basis Net Position

Governmental Activities	Business Type Activities	Total
\$ (249,609)	\$	\$ (249,609)
(39,670)		(39,670)
(142,424)		(142,424)
(29,133)		(29,133)
(71,776)		(71,776)
(133,472)		(133,472)
200,850		200,850
(465,234)		(465,234)
	(29,396)	(29,396)
	3,210	3,210
	(26,186)	(26,186)
\$ (465,234)	\$ (26,186)	\$ (491,420)

479,136		479,136
64,004		64,004
119,313		119,313
34,618	2,619	37,237
250,000		250,000
947,071	2,619	949,690
481,837	(23,567)	458,270
517,519	667,122	1,184,641
\$ 999,356	\$ 643,555	\$ 1,642,911

\$ 26,449	\$	\$ 26,449
141,906		141,906
19,941	333,514	353,455
874,944		874,944
(63,884)	310,041	246,157
\$ 999,356	\$ 643,555	\$ 1,642,911

City of Corning, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ending June 30, 2013

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Employee Benefits
Receipts				
Property taxes	\$ 296,145	\$	\$	\$ 182,991
Local option sales tax			119,313	
Licenses and permits	21,930			
Use of money and property	33,018			
Intergovernmental	36,973	156,577		
Charges for services	7,216			
Miscellaneous	17,226	3,435		
Total receipts	412,508	160,012	119,313	182,991
Disbursements				
Operating				
Public safety	196,170			90,983
Public works	21,885	134,198		49,649
Culture and recreation	35,488			27,217
Community and economic development	28,846			287
General government	94,099			17,428
Debt service				
Capital projects				
Total disbursements	376,488	134,198		185,564
Excess (deficiency) of receipts over (under) disbursements	36,020	25,814	119,313	(2,573)
Other financing sources (uses)				
Bond proceeds				
Operating transfers in	174,967			
Operating transfers out	(69,996)		(119,313)	
Total other financing sources (uses)	104,971		(119,313)	
Change in cash balances	140,991	25,814		(2,573)
Cash balance (deficit) beginning of year	(193,468)	116,092		(11,005)
Cash balance (deficit) end of year	\$ (52,477)	\$ 141,906		\$ (13,578)
Cash basis fund balances (deficit)				
Nonspendable- Cemetery perpetual care	\$	\$	\$	\$
Restricted for:				
Streets		141,906		
Debt service				
Other purposes				
Unassigned	(52,477)			(13,578)
Total cash basis fund balances (deficit)	\$ (52,477)	\$ 141,906		\$ (13,578)

See notes to financial statements.

Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
\$ 64,004	\$	\$	\$ 543,140
			119,313
			21,930
	1,600		34,618
	1,304,341	18,900	1,516,791
		41,148	48,364
	432,224	15,701	468,586
64,004	1,738,165	75,749	2,752,742
			287,153
			205,732
		155,468	218,173
			29,133
			111,527
88,677	44,795		133,472
	1,535,715		1,535,715
88,677	1,580,510	155,468	2,520,905
(24,673)	157,655	(79,719)	231,837
	250,000		250,000
25,220	59,657	76,331	336,175
(56,390)	(25,220)	(65,256)	(336,175)
(31,170)	284,437	11,075	250,000
(55,843)	442,092	(68,644)	481,837
75,784	382,348	147,768	517,519
\$ 19,941	\$ 824,440	\$ 79,124	\$ 999,356
\$	\$	\$ 26,449	\$ 26,449
			141,906
19,941			19,941
	873,535	1,409	874,944
	(49,095)	51,266	(63,884)
\$ 19,941	\$ 824,440	\$ 79,124	\$ 999,356

City of Corning, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2013

	Sewer	Sanitation	Total
Operating receipts			
Use of money and property	\$ 2,619	\$	\$ 2,619
Charges for service	489,865	184,668	674,533
Total operating receipts	492,484	184,668	677,152
Operating disbursements			
Business type activities	258,774	181,458	440,232
Excess of operating receipts over operating disbursements	233,710	3,210	236,920
Non-operating receipts (disbursements)			
Debt service	(208,943)		(208,943)
Capital projects	(51,544)		(51,544)
Total non-operating receipts (disbursements)	(260,487)		(260,487)
Change in cash balances	(26,777)	3,210	(23,567)
Cash balances beginning of year	671,804	(4,682)	667,122
Cash balances end of year	\$ 645,027	\$ (1,472)	\$ 643,555
Cash basis fund balances			
Restricted for debt service	\$ 333,514	\$	\$ 333,514
Unrestricted	311,513	(1,472)	310,041
Total cash basis fund balances	\$ 645,027	\$ (1,472)	\$ 643,555

See notes to financial statements.

CITY OF CORNING, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1/ Summary of Significant Accounting Policies

The City of Corning is a political subdivision of the State of Iowa located in Adams County. It was first incorporated in 1857 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, public improvements, and general administrative services. The City also provides sewer and sanitary utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units that meet the criteria other than the following excluded component unit.

The Corning Municipal Utilities, which provides water, electric and gas services, was established under Chapter 388 of the Code of Iowa, and is legally separate from the City, but has the potential to provide specific benefits to, or impose specific burdens on the City. The Municipal Utilities is governed by a three-member board appointed by the Mayor and approved by the City Council. The Municipal Utilities has been audited separately on a December 31, 2012 year end on an accrual basis. Complete financial statements can be obtained from the Municipal Utilities administrative office.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Adams County Assessor's Conference Board.

The City and Adams County have entered into a 28E agreement for the County to provide law enforcement for the City. During the year ended June 30, 2013, a total payment of \$ 244,946 was made to the County.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/ components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa for road construction and maintenance.

The Local Option Sales Tax is used to account for the City's sales tax receipts and the disbursements financed by such.

The Employee Benefits Fund is used to account for the tax levy and the disbursement for the benefits.

The Capital Project Fund is utilized to account for all resources used in the acquisition of capital facilities.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sanitation Fund accounts for the operation of the City's solid waste disposal.

C. Measurement Focus and Basis of Accounting

The City of Corning maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less restrictive classifications- committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable- Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted- amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned- Amounts the City Council intends to use for specific purposes.

Unassigned- All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the Community and Economic Development, Debt Service, Capital Projects and Business Type Activities functions.

2/ Cash and Pooled Investments

The City's deposits at June 30, 2013 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the City.

3/ Bonds and Notes Payable

The annual debt service requirement to maturity for interest bearing general obligation and sewer revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Bonds		Total Annual Debt Retirement	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	55,000	11,778	147,000	50,580	202,000	62,358
2015	55,000	10,347	152,000	46,170	207,000	56,517
2016	55,000	8,642	156,000	41,610	211,000	50,252
2017	60,000	6,938	161,000	36,930	221,000	43,868
2018	60,000	4,687	166,000	32,100	226,000	36,787
2019	65,000	2,437	171,000	27,120	236,000	29,557
2020			176,000	21,990	176,000	21,990
2021			181,000	16,710	181,000	16,710
2022			186,000	11,280	186,000	11,280
2023			192,000	5,700	192,000	5,700
2024			198,000	5,940	198,000	5,940
Totals	\$ 350,000	\$ 44,829	\$ 1,886,000	\$ 296,130	\$ 2,236,000	\$ 340,959

The anticipated interest on the above sewer bonds has been adjusted to reflect the extra \$ 200,000 principal payment made in July, 2013.

Sewer Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$3,075,000 in sewer revenue bonds issued in June, 2003. Proceeds from the bonds provided financing for the sewer treatment plant construction and improvement. The bonds are payable solely from sewer customer net receipts and are payable through 2024. Annual principal and interest payments on the bonds are expected to require less than 89 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$2,182,130. For the current year, principal and interest paid and customer net receipts were \$208,943 and \$233,710, respectively.

The resolutions providing for the issuance of the sewer revenue bonds include the following provisions.

- a. The bonds will only be redeemed from the future earnings of the sewer activity and the bond holders hold a lien on the future earnings of such.
- b. Sufficient monthly transfers shall be made to a separate revenue bond sinking account for the purpose of making the next bond principal and interest payments.
- c. User rates shall be established and charged to customers of the activity at least sufficient to pay the expenses of operating and maintenance and to have a balance of net revenues equal to at least 110% of the principal and interest on the bonds falling due in the same year.

The City has established the sinking fund required by the above resolution.

CIPCO Rural Economic Development Note

In 2008, Central Iowa Power Cooperative of Cedar Rapids, Iowa (CIPCO) loaned \$300,000, under its Rural Economic Development Loan and Grant Program, to the City to provide financing for the aquatic center.

The note is not a general obligation of the City but is to be repaid, without interest, from the local option sales tax revenues and funds available from the operations of the aquatic center. The annual payments are \$37,500 and are payable through 2018.

Adams County 28 E Agreement

In 2009, the City committed to make Adams County a secondary recipient of local option sales tax revenues for the purpose of repaying Local Option Sales Tax Revenue Bonds issued by the County to provide financing for the aquatic center. The City will be repaying the County \$25,220 annually through 2023. If at the time of the final maturity the City did not have sufficient local option sales tax revenues to repay the obligation, it will issue a judgment bond to pay the balance due.

Loomis Street Bridge Anticipation Project Note

On July 9, 2012, the City issued an anticipation project note to a local bank to fund bridge construction costs. As of June 30, 2013, the principal balance was \$250,000 with interest at 3%. The note matures December 31, 2013 and is expected to be paid from the BNSF railroad contribution to the project and remainder of the federal grant.

4/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General	Aquatic Center Operations	\$22,000
General	Library Operations	47,996
Local Option Sales Tax	General	53,321
Local Option Sales Tax	Library Operations	6,335
Local Option Sales Tax	Aquatic Center Capital Project	59,657
Debt Service	General	56,390
Aquatic Center Operations	General	65,256
Aquatic Center Capital Project	Debt Service	25,220

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

5/ Pension and Retirement Benefits

IPERS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2013, was \$22,702, equal to the required contributions for the year.

6/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The liability is computed based on the rate of pay as of June 30, 2013. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2013, primarily relating to the General Fund, was \$47,000.

7/ Other Postemployment Benefits (OPEB)

Plan Description- The City participates in a single-employer benefit plan which provides medical and prescription drug coverage for active employees, retirees and their spouses. There are 6 active and no retired members in the plan. Participants must be age 55 or older at retirement. The benefits are provided through a fully-insured plan with Wellmark. Retirees pay the full premium for the benefits.

Funding Policy- The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the plan members are \$789 for single coverage, \$1,580 for employee and spouse, and \$1,441 for family coverage. The City pays the full cost of the coverage the employee elects. For the year ended June 30, 2013, the City contributed \$79,994.

8/ Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9/ Neighborhood Stabilization Program

The program was approved by the City Council in April 2009. The program was initially funded by a Community Development Block Grant and is administered by the Southern Iowa Council of Governments. Through the program, the City acquired, then demolished, constructed or reconstructed, residential properties. As of June 30, 2013 the NSP Fund had a deficit of \$47,916 and the City owned five residential

properties which were available for sale to qualified low and medium income buyers. With the sale proceeds the deficit will be restored and any excess will be used as a revolving fund to acquire and resell additional qualifying properties.

10/ Deficit Fund Balances

At June 30, 2013 the General, Employee Benefit, NSP Fund, Façade Project, and Sanitation Funds had deficit balances of \$52,477, \$13,578, \$47,916, \$1,179 and \$1,472, respectively. The deficit in the General Fund will be reduced by transfers from other funds. The deficit in the Employee Benefit Fund will be reduced by increasing property tax levies in subsequent years. The NSP Fund deficit will be reduced as explained in Note 9. The Façade Project deficit was a result of project costs incurred prior to availability of funds and will be eliminated upon receipt of grant funds. Garbage rates were increased and should eliminate the deficit.

11/ Contingency

The City and several other municipalities are members of a closed waste disposal facility known as Adams-Taylor County Landfill. The facility has been in its post closing monitoring stage since 1993 and must monitor for 30 years. The Code of Iowa requires the Landfill to maintain separate postclosure care accounts to accumulate resources for the payment of the costs. In addition to the Iowa Department of Natural Resources (DNR) reserve requirements, the Landfill continues to annually assess a per capita fee to each member to support the monitoring process which was \$3,270 for the City during the year ended June 30, 2013. Periodically, the Landfill's engineers estimate the post closure expense and report the estimated expense to the DNR to demonstrate financial assurance for any unfunded costs. The current study has not been completed.

12/ Subsequent Events

The City is considering the construction of a new Fire Station Building. To date, the plans have not been finalized. By June 30, 2013, the engineering costs had been paid from private contributions. If the project proceeds, it will be financed by a USDA loan, a USDA grant and additional grants and private contributions. Since some private contributions are pledged to be paid over several years, temporary loans may be necessary.

City of Corning, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Other Information
 Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual
Receipts		
Property taxes	\$ 543,140	\$
Local option sales tax	119,313	
Licenses and permits	21,930	
Use of money and property	34,618	2,619
Intergovernmental	1,516,791	
Charges for service	48,364	674,533
Miscellaneous	468,586	
Total receipts	<u>2,752,742</u>	<u>677,152</u>
Disbursements		
Public safety	287,153	
Public works	205,732	
Culture and recreation	218,173	
Community and economic development	29,133	
General government	111,527	
Debt service	133,472	208,943
Capital projects	1,535,715	51,544
Business type activities		440,232
Total disbursements	<u>2,520,905</u>	<u>700,719</u>
Excess (deficiency) of receipts over (under) disbursements	<u>231,837</u>	<u>(23,567)</u>
Other financing sources	<u>250,000</u>	
Excess (deficiency) of receipts over disbursements and other financing sources	<u>481,837</u>	<u>(23,567)</u>
Balances beginning of year	517,519	667,122
Balances end of year	<u>\$ 999,356</u>	<u>\$ 643,555</u>

See accompanying independent auditors' report.

Budgeted Amounts

Net	Original	Final	Less-Excluded Component	Net City Budget	Final to Net Variance
\$ 543,140	\$ 572,434	\$ 572,434	\$	\$ 572,434	\$ (29,294)
119,313	154,354	154,354		154,354	(35,041)
21,930	4,378	7,928		7,928	14,002
37,237	72,612	82,397	8,300	74,097	(36,860)
1,516,791	523,267	947,098		947,098	569,693
722,897	4,503,701	4,503,701	3,835,000	668,701	54,196
468,586	1,242,607	1,416,005	848,774	567,231	(98,645)
3,429,894	7,073,353	7,683,917	4,692,074	2,991,843	438,051
287,153	296,152	297,952		297,952	10,799
205,732	321,303	343,383		343,383	137,651
218,173	247,043	247,293		247,293	29,120
29,133	18,636	18,636		18,636	(10,497)
111,527	124,220	214,489		214,489	102,962
342,415	175,318	175,318		175,318	(167,097)
1,587,259	336,735	696,014		696,014	(891,245)
440,232	4,782,719	4,822,319	4,692,074	130,245	(309,987)
3,221,624	6,302,126	6,815,404	4,692,074	2,123,330	(1,098,294)
208,270	771,227	868,513		868,513	(660,243)
250,000	532	282,331		282,331	(32,331)
458,270	771,759	1,150,844		1,150,844	(692,574)
1,184,641	1,452,331	1,452,331	267,690	1,184,641	
\$ 1,642,911	\$ 2,224,090	\$ 2,603,175	\$ 267,690	\$ 2,335,485	\$ (692,574)

City of Corning, Iowa
Notes to Other Information – Budgetary Reporting
June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No.41 for governments with significant budgetary perspective difference resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Permanent Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 513,278. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the Community and Economic Development, Debt Service, Capital Projects and Business Type Activities functions.

The City was required to publish the budget including Corning Municipal Utilities. Since the component unit was excluded from the government financial statements the final budget was adjusted for comparison purposes.

City of Corning, Iowa
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2013

				<u>Permanent</u>
	Aquatic Operations	Library	Community Disaster Grant	Cemetery Perpetual Care
Receipts				
Intergovernmental	\$	\$ 18,900	\$	\$
Charges for services	41,148			
Miscellaneous		15,589		112
Total receipts	<u>41,148</u>	<u>34,489</u>		<u>112</u>
Operating Disbursements				
Culture and recreation	<u>59,956</u>	<u>94,045</u>	<u>1,467</u>	
Excess(deficiencies) of receipts over (under) disbursements	<u>(18,808)</u>	<u>(59,556)</u>	<u>(1,467)</u>	<u>112</u>
Other financing (uses)				
Operating transfers in	22,000	54,331		
Operating transfer out	<u>(65,256)</u>			
Total other financing (uses)	<u>(43,256)</u>	<u>54,331</u>		
Change in cash balances	(62,064)	(5,225)	(1,467)	112
Cash balances beginning of year	65,256	53,299	2,876	26,337
Cash balances end of year	<u>\$ 3,192</u>	<u>\$ 48,074</u>	<u>\$ 1,409</u>	<u>\$ 26,449</u>
Cash basis fund balances				
Nonspendable- Cemetery	\$	\$	\$	\$ 26,449
Restricted for other purposes			1,409	
Unassigned	3,192	48,074		
Total cash basis fund balances	<u>\$ 3,192</u>	<u>\$ 48,074</u>	<u>\$ 1,409</u>	<u>\$ 26,449</u>

See accompanying independent auditor's report.

<u>Total</u>	
\$	18,900
	41,148
	<u>15,701</u>
	<u>75,749</u>

155,468

(79,719)

76,331
(65,256)
11,075

(68,644)

147,768
\$ 79,124

\$ 26,449
1,409
51,266
\$ 79,124

City of Corning, Iowa
Schedule of Capital Projects Funds
As of and for the year ended June 30, 2013

	Aquatic Center	Loomis Bridge	Community Center	Fire Dept Building
Receipts				
Use of money and property	\$ 1,600	\$	\$	\$
Intergovernmental		865,900		
Contributions	74,051	166,748		191,425
Total receipts	75,651	1,032,648		
Disbursements				
Debt service	37,500	7,295		
Capital projects	1,265	942,094		101,136
Total disbursements	38,765	949,389		101,136
Excess(deficiency) of receipts over (under) disbursements	36,886	83,259		90,289
Other financing sources				
Bond proceeds		250,000		
Operating transfers in	59,657			
Operating transfers out	(25,220)			
Total other financing sources (uses)	34,437	250,000		
Change in cash balances	71,323	333,259		90,289
Cash balance (Deficit) beginning of year	454,690	(225,613)	2,412	97,586
Cash balance (Deficit) end of year	\$ 526,013	\$ 107,646	\$ 2,412	\$ 187,875
Cash basis fund balances (Deficit)				
Restricted for other purposes	\$ 526,013	107,646	\$ 2,412	\$ 187,875
Unassigned				
Total cash basis fund balances	\$ 526,013	\$ 107,646	\$ 2,412	\$ 187,875

See accompanying independent auditor's report.

Schedule 2

NSP Fund	Façade Project	Airport Projects	Total
\$	\$	\$	\$
4,732	386,182	47,527	1,600
			1,304,341
			432,224
4,732			1,113,031
13,444	386,182	91,594	1,535,715
	386,182	91,594	1,567,066
(8,712)		(44,067)	157,655
			250,000
			59,657
			(25,220)
			284,437
(8,712)		(44,067)	442,092
(39,204)	(1,179)	93,656	382,348
\$ (47,916)	\$ (1,179)	\$ 49,589	\$ 824,440
\$	\$	\$	\$
(47,916)	(1,179)	49,589	873,535
(47,916)	(1,179)	49,589	(49,095)
(47,916)	(1,179)	49,589	824,440

City of Corning, Iowa
Schedule of Indebtedness
For the year ended June 30, 2013

	Date of Issue	Interest Rates	Amount Originally Issued
Obligation			
General Obligation Bonds			
Transportation- Bridge	June 24, 2009	2.60% -3.75%	\$ 500,000
CIPCO Rural Economic Development			
Aquatic Center	August 24, 2008	0.00%	300,000
Revenue Bonds			
Sewer Revenue Bonds	June 6, 2003	3.00%	3,075,000
Adams County 28 E Agreement			
Aquatic Center	May 1, 2009	0.00%	378,000
Loomis Street Bridge Anticipation			
Project Note	July 9, 2012	3.00%	500,000

The accompanying independent auditor's report.

Schedule 3

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 400,000	\$	\$ 50,000	\$ 350,000	\$ 13,078
\$ 225,000	\$	\$ 37,500	\$ 187,500	\$
\$ 2,029,000	\$	\$ 143,000	\$ 1,886,000	\$ 60,870
\$ 277,420	\$	\$ 25,220	\$ 252,200	\$
\$	\$ 250,000		\$ 250,000	\$ 7,295

City of Corning, Iowa
Bond Maturities
For the year ended June 30, 2013

Schedule 4

General Obligation Bonds - Streets		
Issued June 24, 2009		
Year Ending June 30,	Interest Rates (%)	Amount
2014	2.60	\$ 55,000
2015	3.10	55,000
2016	3.10	55,000
2017	3.75	60,000
2018	3.75	60,000
2019	3.75	65,000
Total		<u>\$ 350,000</u>

CIPCO- Rural Development Loan		
Issued August 24, 2008		
Year Ending June 30,	Interest Rates (%)	Amount
2014	0.00	\$ 37,500
2015	0.00	37,500
2016	0.00	37,500
2017	0.00	37,500
2018	0.00	37,500
Total		<u>\$ 187,500</u>

Sewer Revenue Bonds		
Issued June 6, 2003		
	Interest	Amount
2014	3.00	147,000
2015	3.00	152,000
2016	3.00	156,000
2017	3.00	161,000
2018	3.00	166,000
2019	3.00	171,000
2020	3.00	176,000
2021	3.00	181,000
2022	3.00	186,000
2023	3.00	192,000
2024	3.00	198,000
Total		<u>\$ 1,886,000</u>

Adams Co. 28 E Agreement		
Issued May 1, 2009		
	Interest	Amount
2014	0.00	\$ 25,220
2015	0.00	25,220
2016	0.00	25,220
2017	0.00	25,220
2018	0.00	25,220
2019	0.00	25,220
2020	0.00	25,220
2021	0.00	25,220
2022	0.00	25,220
2023	0.00	25,220
Total		<u>\$ 252,200</u>

See accompanying independent auditor's report.

City of Corning, Iowa
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Schedule 5

Grantor/Program	CFDA Number	Agency Number	Program Expenditures
Indirect:			
U.S. Department of Transportation			
Iowa Department of Transportation			
Highway Planning and Construction	20.205	02-1590-602	\$ 942,094
U.S. Department of Housing and Urban Development			
Iowa Department of Economic Development			
Community Development Block Grants/ State's	14.228	10-DTR-003	\$ 386,182
Program and Non-Entitlement Grants in Hawaii	14.228	08-NSP-004	13,443
			<u>399,625</u>
Total			<u>\$ 1,341,719</u>

Basis of Presentation-

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

See accompanying independent auditor's report.

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANT

JAMES R. ZIRCHER, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1098
JOHNSTON, IOWA 50131
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Corning, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon as dated below. My report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Corning's internal control over financial reporting as a basis for designing my auditing procedures to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, I have identified a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that I consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency in internal control described in Part II of the accompanying Schedule of findings and Questioned Costs as item II-A-13 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Corning's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no

instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City's Responses to Findings

The City of Corning's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 19, 2014

Pollard and Company P.C.

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANT

JAMES R. ZIRCHER, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1098
JOHNSTON, IOWA 50131
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

I have audited the City of Corning's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City's major federal program for the year ended June 30, 2013. The City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for the City's major federal program based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In my opinion, the City of Corning complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City of Corning is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, I identified a deficiency in internal control over compliance I consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. I consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-13 to be a material weakness.

The City's response to the internal control over compliance finding identified in my audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

I have audited the financial statements of the City of Corning as of and for the year ended June 30, 2013, and have issued my report as dated below, which contained an unmodified opinion on those financial statements. My audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting records and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

March 19, 2014

Pollard and Company P.C.

CITY OF CORNING, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

Part I: Summary of the Independent Auditor's Results

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and reimbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with the requirements applicable to the major program.
- (f) The audit did not disclose findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section.510(a).
- (g) The major program was CFDA Number 20.205- Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Corning did not qualify as a low- risk auditee.

Part II: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCY:

II-A-13

Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that generally one person has control over each of the following areas:

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, signing, mailing journalizing and posting.
- (3) Payroll preparation and distribution.

Recommendation

I realize that with a limited number of office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response

We will continue to review the internal control procedures and segregate duties to the extent possible.

Conclusion

Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III Findings for Federal Awards

INTERNAL CONTROL DEFICIENCY :

III-A-13
(2013-001)

Segregation of Duties over Federal Receipts and Disbursements

The City did not properly segregate duties over receipts and disbursements including those related to federal programs. See item II-A-13.

Part IV Other findings related to Required Statutory Reporting

IV-A-13

Certified Budget

Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the Community and Economic Development, Debt Service, Capital Project, and Business Type Activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation

The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget and to correct the beginning balances.

Response

The budget will be amended in the future, as applicable.

Conclusion

Response accepted.

IV-B-13

Questionable Disbursements

I noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-13

Travel Expense

I noted no disbursements of City money for travel expenses of spouses of City officials or employees during the year.

IV-D-13

Business Transactions

I noted no business transactions between the City and City officials or employees.

- IV-E-13 Bond Coverage
Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-13 Council Minutes
No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-13 Deposits and Investments
I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.
- IV-H-13 Revenue Bonds
I noted no instances of non compliance with the revenue bonds.
- IV-I-13 Financial Condition
The General, Employee Benefit, NSP Fund, Façade Project and Sanitation Funds had deficit balances at June 30, 2013 of \$52,477, \$13,578,\$47,916, \$1,179 and \$1,472, respectively.
- Recommendation
The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.
- Response
Note 10 of the financial statements indicates the City's plans to eliminate the deficits.
- Conclusion
Response accepted.
- IV-J-13 Urban Renewal Annual Report
The City discontinued its urban renewal program therefore no report was required.